

Message Text

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ACTION EUR-12

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E.O. 11652: N/A
TAGS: ETRD, EFIN, ECON, EEWT, HU
SUBJECT: MEETING WITH MINISTER OF FINANCE (FALUVEGI, LAJOS)

1. DURING MY CALL ON FINANCE MINISTER LAJOS FALUVEGI
THIS MORNING, MARCH 23, WE DISCUSSED THE DOUBLE TAXATION
TREATY, THE TRADE AGREEMENT, POSSIBLE USE OF EXPORT-IMPORT
CREDITS AND THE PROSPECT OF HUNGARY JOINING THE IMF AND
WORLD BANK. WE ALSO TALKED ABOUT THE OUTLOOK FOR INCREASED
AMERICAN-HUNGARIAN COMMERCIAL RELATIONS AS RESULT OF RECENT
DEVELOPMENTS AND THE CURRENT ECONOMIC SITUATION OF HUNGARY.

2. THE MINISTER NOTED WITH SATISFACTION PROGRESS MADE
IN THE DOUBLE TAXATION DRAFT AND HOPED THAT AN AGREEMENT
WOULD BE SIGNED BEFORE THE END OF THE YEAR. HE AND HIS
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GOVERNMENT WERE FLEXIBLE AS TO TIME AND VENUE OF THE
SIGNING AND WOULD BE RESPONSIVE TO ANY EXPRESSED DESIRE
ON OUR PART. IN A LOW KEY WAY, HOWEVER, HE MADE IT
CLEAR THAT HE WOULD FIND IT AGREEABLE IF THE SIGNING
TOOK PLACE IN WASHINGTON, AND THAT HE, HIMSELF, WOULD LIKE
TO REPRESENT HIS GOVERNMENT.

3. AS ALL OTHER TOP HUNGARIAN OFFICIALS, INCLUDING DEPUTY PRIME MINISTER SZEKER, WHOM I SAW EARLIER THIS WEEK, THE FINANCE MINISTER EXPRESSED PLEASURE OVER THE SIGNING OF THE TRADE AGREEMENT AND WAS LOOKING FORWARD TO THE TIME WHEN, HOPEFULLY, THE CONGRESS WOULD APPROVE IT AND BOTH COUNTRIES COULD BEGIN TO TAKE COMMERCIAL ADVANTAGE OF ITS PROVISIONS. HE POINTED OUT THAT THE AGREEMENT OPENED UP OPPORTUNITIES FOR AMERICAN INDUSTRY AS WELL AS FOR HUNGARIAN ENTERPRISES. THE HUNGARIANS WERE COMMITTED TO MODERNIZATION OF THEIR INDUSTRIAL STRUCTURE AND CLEARLY THE UNITED STATES COULD MAKE IMPORTANT CONTRIBUTIONS TO THIS END. THERE IS NO DOUBT THAT WITH THE REMOVAL OF DISCRIMINATORY TARIFFS ON THE HUNGARIAN SIDE, AMERICAN INDUSTRY WOULD BE IN A POSITION TO COMPETE MORE FAVORABLY AGAINST WEST EUROPEAN, PARTICULARLY GERMAN, INDUSTRY ON MAJOR CAPITAL PROJECTS. (COMMENT: THIS POINT HAS BEEN MADE TO ME BY SEVERAL REPRESENTATIVES OF AMERICAN COMPANIES. APPARENTLY THE HUNGARIANS HOPE THAT THIS WILL BE THE CASE. IT REFLECTS A DESIRE ON THEIR PART TO BE LESS DEPENDENT ECONOMICALLY ON WEST GERMANY.)

4. THE FOREIGN MINISTER INDICATED THAT HUNGARY MAY VERY WELL BE INTERESTED IN EXPORT-IMPORT BANK FINANCING, PARTICULARLY AFTER THE TRADE AGREEMENT HAD BEEN APPROVED AND A DOUBLE TAXATION TREATY HAD BEEN SIGNED. THE MINISTER POINTED OUT THAT THERE ARE NOW SIX SIGNIFICANT LIMITED OFFICIAL USE

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HUNGARIAN-AMERICAN JOINT ENTERPRISE PROJECTS EITHER AGREED UPON OR IN THE WORKS AND HOPEFULLY OTHERS WOULD BE FORTHCOMING. WITH THESE NEW DEVELOPMENTS HE COULD ANTICIPATE HUNGARIAN RECOURSE TO EXPORT-IMPORT BANK LOANS. IN THIS CONTEXT HE TALKED AT SOME LENGTH ABOUT THE PLANNING ALREADY IN TRAIN FOR THE NEXT FIVE-YEAR PLAN -- 1980-85. AS THE CENTRAL COMMITTEE HAD DETERMINED IN ITS OCTOBER MEETING, THE GOVERNMENT WAS COMMITTED TO MODERNIZATION OF THE ECONOMY AND THE CONSEQUENT NEED FOR INDUSTRIAL RESTRUCTURING AND INTERNAL MONETARY AND FISCAL REFORMS. IT WAS HIS HOPE THAT THE EXPANSION OF U.S.-HUNGARIAN COMMERCIAL RELATIONS WOULD RELATE SIGNIFICANTLY TO THE GOALS OF THE FIVE-YEAR PLAN.

5. ON CEMA AS A GROUP, OR INDIVIDUAL MEMBER COUNTRIES JOINING THE IMF AND THE WORLD BANK, HE THOUGHT THIS WAS POSSIBLE, BUT NOT IN THE FORESEEABLE FUTURE. THE INTERNATIONAL INTERDEPENDENCE OF ALL ECONOMIES WAS INCREASING AND WITH THE EXPANDED TRADE AND FINANCIAL TIES BETWEEN EAST AND WEST, HE COULD ENVISAGE THE DAY WHEN EVEN THE SOVIET UNION COULD BE INTERESTED IN FINANCIAL TIES WITH THOSE WORLD ECONOMIC INSTITUTIONS. HE POINTED OUT,

HOWEVER, THAT BOTH THE IMF AND BANK WOULD PROBABLY NEED REFORMING AND SOME RESTRUCTURING. IN REPLAY TO MY QUESTION, HE HAD NO HESITATION IN SAYING IT WAS ALSO POSSIBLE THAT INDIVIDUAL COUNTRIES, LIKE HUNGARY FOR EXAMPLE, COULD JOIN THE IMF AND BANK ON THEIR OWN. HUNGARY WOULD LIKE TO SEE THE DAY WHEN ALL CURRENCIES WERE CONVERTIBLE. A HUNGARIAN DECISION TO JOIN WOULD DEPEND ON BOTH THE INTERNAL SITUATION OF THE COUNTRY'S ECONOMY AND ITS EXTERNAL POSITION BEING RIPE FOR MEMBERSHIP.

6. COMMENT: PARTICULARLY IMPRESSIVE DURING THE HOUR-LONG CONVERSATION WAS THE MINISTER'S EMPHASIS ON HUNGARY'S COMMITMENT TO THE INTERNATIONAL ROUTE AS THE WAY TO DEAL WITH ITS ECONOMIC DESTINY. ON MORE THAN ONE OCCASION HE REFERRED

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BACK TO TH DECISION OF THE CENTRAL COMMITTEE LAST OCTOBER. HIS COMMENTS ON AMERICAN-HUNGARIAN COMMERCIAL PROSPECTS ALSO REFLECTED THIS BIAS. HE VOLUNTEERED THAT THE PRESENT POSITION OF HUNGARY'S ECONOMY WAS DIFFICULT BUT BY NO MEANS CRITICAL AND HE FORESAW NO DETERIORATION IN HUNGARY'S INTERNATIONAL FINANCIAL POSITION. THE FUTURE WELFARE OF THE COUNTRY DEPENDED ON EXPANDING FOREIGN TRADE WHICH IN TURN REQUIRED MODERNIZATION AND RATIONALIZATION OF THE ECONOMY.
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